



**PANTERA DRILLING
INCOME TRUST**

**2007
YEAR END REPORT**



TSX: RIG.UN

Pantera Drilling Income Trust

Management's Discussion and Analysis

For The Year Ended December 31, 2007

The following management's discussion and analysis of the consolidated financial condition and results of operations of Pantera Drilling Income Trust (the "Trust" or "Pantera") for the year ended December 31, 2007 is based on information available to March 20, 2008 and should be read in conjunction with the consolidated financial statements and related notes contained in the audited consolidated financial statements for the years ended December 31, 2007 and 2006. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All financial results are reported in Canadian dollars.

Additional information relating to the Trust, including its annual information form, can be accessed on the Trust's website at www.panteradrilling.com and under the Trust's profile on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

HIGHLIGHTS			
<i>Years ended December 31</i>			
FINANCIAL	2007	2006	2005
(\$000s, except for units and per unit amounts)			
Revenue	28,461	30,911	22,661
Gross margin ⁽¹⁾	10,055	11,661	8,809
Net earnings	3,395	5,963	3,891
Per unit (basic and diluted)	.54	1.06	1.18
Cash flow from operating activities	6,461	7,566	4,299
Per unit (basic and diluted)	1.03	1.34	1.31
Funds from operations ⁽¹⁾	5,782	7,884	5,451
Per unit (basic and diluted)	.92	1.40	1.66
Cash distributions declared per unit	.73	.78	-
EBITDA ⁽²⁾	7,376	8,740	7,359
Total assets	54,637	55,057	31,813
Total long-term financial liabilities	22,609	19,460	675
Units outstanding (weighted average)	6,266,569	5,649,400	3,286,404
Units outstanding (end of period)	6,487,573	6,066,365	3,500,000
OPERATING			
Number of rigs (end of year)			
Conventional	7	7	3
Coil	-	1	2
Total	7	8	5
Number of rigs (weighted average) ⁽⁴⁾	7.4	5.6	4.3
Operating days	1,003	1,099	890
Industry utilization average ⁽³⁾	37%	55%	59%
Pantera utilization rates ⁽⁴⁾			
Conventional	36%	72%	64%
Coil	-%	17%	49%
Weighted average	36%	54%	57%

- (1) Funds from operations as used in this report represents cash flow from operating activities before changes in non-cash operating working capital. Gross margin represents revenue less operating expenses. Readers are cautioned that funds from operations and gross margin do not have a standardized meaning prescribed by GAAP and therefore may not be

comparable to similar measures presented by other issuers. However, Pantera does compute funds from operations and gross margin on a consistent basis for each reporting period. Management believes that in addition to net earnings, funds from operations is a useful supplemental measure as it provides an indication of the funds that are available for investing and financing activities, including distributions to unitholders. Management believes gross margin is a useful supplemental measure of operating performance and is particularly relevant to readers within the investment community. Refer to "Non-GAAP Measures" later in this discussion for a quantitative reconciliation of these numbers.

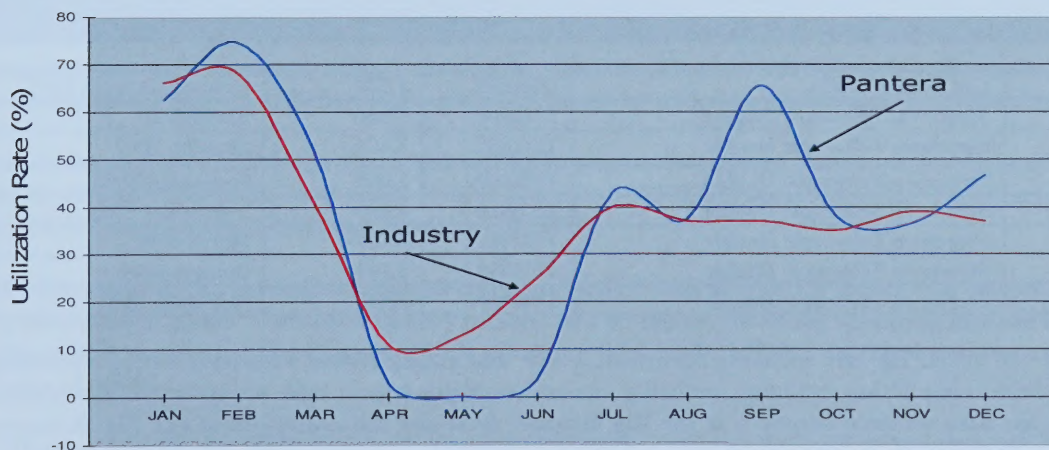
- (2) EBITDA means net earnings before interest, taxes, depreciation, amortization and losses or gains on disposal of equipment. Readers are cautioned that EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute EBITDA on a consistent basis for each reporting period. Management believes that, in addition to net earnings, EBITDA is a significant indication of success for Pantera and is particularly relevant to readers within the investment community. Refer to "Non-GAAP Measures" later in this discussion for a quantitative reconciliation of these numbers.
- (3) Source: Canadian Association of Oilwell Drilling Contractors (CAODC).
- (4) For purposes of calculating utilization rates the number of rigs (weighted average) for Q4, 2006 has been adjusted to reflect the temporary removal of Rigs No. 3 and 4 on October 1, 2006 as they were unavailable for use by Pantera and during Q3, 2007 the utilization rates were adjusted to reflect the de-listing of Rig No. 2.

HIGHLIGHTS

Pantera Drilling Income Trust generated revenue of \$28.5 million for the year ended December 31, 2007, an 8% decrease from the \$30.9 million achieved in 2006. Net earnings for the year decreased to \$3.4 million from \$6.0 million in 2006.

Funds from operations, representing cash flow from operating activities before changes in non-cash operating working capital, decreased \$2.1 million or 27% to \$5.8 million in 2007 from \$7.9 million in 2006.

2007 Rig Utilization Rates



Source: CAODC Statistical Reports

Pantera's rig utilization for 2007 was 36%. This compares to 37% achieved by the industry in the same year. The significant drop in the industry utilization average from 55% in 2006 to 37% in 2007 was attributable to the following: 19,167 wells were drilled in 2007 as compared with 21,256 in 2006, a decrease in activity of 10%; and the average number of rigs in 2007 was 881 as compared to 803 in 2006, a 10% increase in available rigs.

In October of 2006, Pantera made the decision to temporarily remove Rigs No. 3 and 4 from service in order to complete upgrades. The upgrades were completed in the first quarter of 2007. Rig No. 3 was converted from a coil drilling rig into a 1,600 metre stepdown telescopic single rig and Rig No. 4 was converted from a 3,000 metre capacity range 3 single into a 3,400 metre capacity stepdown telescopic double, identical to the other conventional rigs owned by the Trust. Increased demand for additional rigs similar to the Trust's fleet of doubles was a key factor in the decision to convert Rig No. 4. These telescopic doubles have proven to be the ideal rig for pad drilling in the heavy oil areas of northern Alberta. The efficiencies of running a fleet of rigs that is consistent, across each rig, in rig up and design are evident.

Late in the third quarter of 2007, a contract was executed that enabled Pantera to mobilize Rig No. 3 to a drilling program near Sarnia, Ontario. The rig will initially be drilling horizontal gas storage wells. Additional work has been secured in Ontario and it is expected that the rig will now remain active in this area throughout the majority of 2008.

Rig No. 2 is no longer being marketed as a coil rig and was de-listed in the third quarter due to the increased supply of coil rigs, the evolution of coil drilling technology and the decrease in activity in this market segment. The non coil-specific equipment from this rig (pump, tank, combination building and boiler) could be utilized to build a purpose-built top drive rig ideally suited for exploration drilling and coring in the oil sands areas. Management will work to obtain a contract for this rig prior to committing any funds to the conversion process. Pantera intends to finance this conversion, if it occurs, through a combination of funds from operations and the use of its current debt facility.

Pantera's fleet of rigs has grown to what management believes to be one of the most up-to-date fleets in Canada, with all rigs operating either built or having had a significant retrofit in the past 5 years. Following is a summary of the current rig assets owned by the Trust.

Rig No.	Rig Type	Drawworks	Rated Depth (metres)	Construction / Retrofit Completion Date
2	Coil Tubing Single	DD100K	1,250	De-listed August 2007
3	Stepdown Telescopic Single	TSM3000	1,600	March 2007
4	Stepdown Telescopic Double	TSM850	3,400	January 2007
5	Stepdown Telescopic Double	TSM7000	3,000	November 2003
6	Stepdown Telescopic Double	TSM850	3,400	September 2005
7	Stepdown Telescopic Double	TSM850	3,400	March 2006
8	Stepdown Telescopic Double	TSM850	3,400	October 2006
9	Stepdown Telescopic Double	TSM850	3,400	December 2006

Six of the seven rigs are virtually identical in size and configuration thereby creating operating efficiencies, simplifying training, reducing inventory requirements and improving maintenance. There has been minimal turnover at the Rig Manager level and the dedication of our Rig Managers has a positive effect on overall work force stability on the rigs.

Pantera maintains a safety program that is based on the conviction that the well being and safety of its employees is one of Pantera's greatest responsibilities and is therefore one of the first considerations in all operations. Pantera's rig maintenance programs emphasize safety and rig reliability. High utilization rates and reliable equipment will foster a safe work environment and crew stability at the rig. Pantera has held its Certificate of Recognition ("COR") for the past five years and is committed to this program. Alberta Human Resources and Employment developed the COR Occupational Health and Safety Program by way of a partnership that provides a method for

drilling companies to develop and improve their health and safety programs through both internal and external audits.

The Trust implemented a distribution reinvestment plan (the "Plan") on September 30, 2006. The Plan provides eligible unitholders with the opportunity to reinvest their cash distributions payable toward the purchase of additional trust units from treasury at a price equal to 95% of the average market price on the applicable distribution payment date, as defined in the Plan. Participation in the Plan in 2007 averaged approximately 44% and resulted in the issuance of 421,208 units for net proceeds of \$2.1 million. Funds reinvested in the Trust through the Plan will be available to fund capital expenditures and reduce debt.

The decline in industry wide rig utilization from 55% in 2006 to 37% for 2007 and the resulting decline in contract day rates, coupled with the forecast by the CAODC for even lower rig utilization in 2008 (34%) led management of Pantera to the decision that a more concerted effort be expended on conserving maximum cash in order to reduce Pantera's debt and bolster the balance sheet. This will also provide the Trust with more flexibility to take advantage of opportunities that may be presented in the current environment. In that regard, the Trustees reduced the monthly payment of cash distributions to unitholders from \$0.067 to \$0.03 per unit, effective with the November distribution paid on December 14, 2007 to unitholders of record on November 30, 2007.

During the years ended December 31, 2007 and 2006 the Trust declared for distribution \$4.6 million and \$4.4 million respectively. Of those amounts, \$2.1 million and \$337,300 was reinvested in additional trust units by unitholders participating in the distribution reinvestment plan, resulting in a net cash outflow to unitholders of \$2.5 million and \$4.1 million, respectively, for the years ended December 31, 2007 and 2006. The Trust declared for distributions 79% of the funds from operations before changes to non-cash working capital, compared to 56% in 2006. After taking into consideration the amount of distributions reinvested under the Plan, the cash paid to unitholders for the year equated to 43% of funds from operations before changes to non-cash working capital, compared to 52% in 2006. In determining the amount to distribute consideration is given, but not limited to, Pantera's interest and debt principal repayment obligations, capital requirements to maintain its defined assets, capital investment opportunities, external growth opportunities, the seasonality of Pantera's business, and legislative change in tax laws by governments in Canada.

As at December 31, 2007, the Trust had 6,487,573 units outstanding. Subsequent to December 31, 2007, 103,139 trust units were issued for net proceeds of \$279,200 pursuant to the Plan resulting in 6,590,712 total units outstanding as at March 20, 2008.

On November 6, 2007, Pantera extended its credit facility with its existing lender to a term-out date of December 27, 2008. The credit facility consists of a \$5 million revolving operating demand loan, a \$35 million committed 364 day extendible revolving loan facility, and a \$500,000 demand standby letter of credit.

Effective January 30, 2008, Pantera is pleased to announce the appointment of Mr. Blair Wagner as Vice President, Operations. Blair has more than 20 years of drilling experience and will report directly to Mr. Terry Rosentreter, President and Chief Executive Officer.

OPERATING HIGHLIGHTS

Revenue

Revenue for the year ended December 31, 2007 was \$28.5 million, a decrease of \$2.4 million (8%)

from the \$30.9 million achieved in 2006. Revenue for the three months ended December 31, 2007 was \$6.5 million as compared with \$8.5 million in 2006. The decrease in revenue was primarily due to the decrease in rig utilization.

The number of operating days for the year ended December 31, 2007 decreased by 9% to 1,003 from 1,099 in 2006, however on a weighted average basis the number of operating days per rig decreased 31%, from 196 to 136. The decrease experienced by Pantera was consistent with the slow down for the industry.

By the nature of its business, the Trust serves major customers that account for a large portion of revenue by providing exclusive use of one or more of its seven drilling rigs for specified drilling programs. During the year ended December 31, 2007 and 2006 two customers each provided more than 20% of the Trust's revenue; on a combined basis these two customers accounted for total revenue of 58% in 2007 and 49% in 2006.

At December 31, 2007, the Trust had a contract in place with one major customer (December 31, 2006 – four) that provide a guaranteed minimum number of revenue generating days at a fixed daily revenue amount (adjusted for industry-wide labour and cost increases) for the duration of the contract with the term being for a period of 30 months.

Pantera's revenue, cash flow and net earnings are substantially dependent upon, and affected by, the level of activity associated with oil and gas exploration and production. Both short-term and long-term trends in oil and gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for, and the supply of, oil and gas. Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity, and other factors beyond Pantera's control may also affect the supply of and demand for oil and gas and thus lead to future price volatility.

Management believes that any prolonged reduction in oil and gas prices would depress the level of exploration and production activity, which would likely result in a corresponding decline in the demand for Pantera's services and could have a material adverse effect on revenues, cash flows and profitability. Lower oil and gas prices could also: cause Pantera's customers to seek to terminate, renegotiate or fail to honour contracts; affect the fair market value of Pantera's assets which, in turn, could trigger a writedown for accounting purposes; affect Pantera's ability to retain skilled personnel; and, affect Pantera's ability to obtain access to capital to finance and expand its contract drilling business. Pantera cannot assure that the future level of demand for its services or future conditions in the oil and gas and oilfield services industries will not decline.

Operating Expenses

Operating expenses for the year decreased \$844,000 (4%), from \$19.3 million in 2006 to \$18.4 million in 2007. This decrease in operating expenses is directly related to the decrease in operating days. Operating expenses for the fourth quarter decreased \$1.4 million (26%) from \$5.3 million in 2006 to \$3.9 million in 2007 due to a decrease in repairs and top drive rental expenses.

Gross margin (see note 1 on page 2 of the MD&A), for the year ended December 31, 2007 was \$10.1 million, a decrease of \$1.6 million over the \$11.7 million achieved in 2006.

Pantera includes third party charges in its revenue. This revenue inclusion is offset by the corresponding inclusion of the third party charges in operating expenses. This accounting treatment

has no impact on the gross margin amount, however it reduces gross margin as a percentage of revenue. Gross margins expressed without third party charges in revenue and operating expenses for 2007 and 2006 are 43% and 45% respectively. Gross margin expressed with third party charges in revenue and operating expenses for 2007 and 2006 are 35% and 38% respectively.

General and Administrative Expenses

General and administrative expenses ("G&A") for 2007 decreased 8% to \$2.7 million from \$2.9 million in 2006. G&A decreased 8.6% to \$690,700 for the fourth quarter of 2007 from \$755,900 for the fourth quarter of 2006. The decrease in general and administrative expenses is primarily due to lower incentive compensation and professional fees.

As a percentage of revenue, G&A in 2007 remained consistent with 2006 at 9.4%.

Depreciation

Depreciation of property and equipment for the year ended December 31, 2007 was \$2.4 million, an increase of \$400,000 from \$2.0 million for 2006. Depreciation is calculated on the number of drilling days achieved, therefore depreciation expense increases as utilization of each rig and construction costs increase.

Interest Expense

Interest expense on debt increased to \$1.6 million in 2007 from \$893,000 in 2006. The increase is a result of the growth in debt to finance capital expenditures. The average bank debt in the year was \$22.6 million, bearing interest at an average rate of 6.9% as compared to \$11.5 million bearing interest at an average rate of 7.2% in 2006. Interest on the debenture is payable monthly at a bank's prime rate. The Canadian prime bank rate averaged 6.10% in 2007 as compared to 5.81% in 2006. The total debt, including Pantera's operating demand loan, debenture, extendible loan facility and capital leases, at December 31, 2007 was \$23.6 million.

The Trust is exposed to interest rate risk on debt subject to floating interest rates, being the operating demand loan, debenture and extendible loan facility. Pantera pays interest at the Trust's option of the bank's prime rate plus .75% or bankers acceptance rate plus 2.0%.

Income Taxes

At December 31, 2007 the tax basis for property and equipment exceeds the accounting basis by an amount in excess of \$1.4 million. Other tax balances including financing and underwriting costs exceed their respective book values by an amount in excess of \$1.2 million.

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on the income that is not distributed or distributable to the unitholders. The Canadian federal government in 2007 enacted legislation, such that distributions to unitholders will be taxable for publicly traded income trusts and, income retained in these trusts will be taxed similar to corporations. The new tax will not apply to the Trust until January 1, 2011. The Trust has measured future income tax assets and liabilities associated with the change in the legislation. There is no impact, on the future tax recognized in the financial statements, resulting from the implementation of this tax legislation as it is expected that substantially all existing taxable temporary differences will reverse prior to January 1, 2011. Accordingly, all taxable temporary differences have been recognized at a zero taxation rate. The scheduling of the reversal of temporary differences is based on management's best estimates and current assumptions, which may change.

Net Earnings

For the year ended December 31, 2007 net earnings totaled \$3.4 million or \$.54 per unit compared with \$6.0 million or \$1.06 per unit for the year ended December 31, 2006. The decrease in net earnings was principally attributable to a decrease in operating days. For the year ended December 31, 2007 compared with 2006, the number of operating days decreased 9% from 1,099 to 1,003.

Primarily as a result of lower day rates, net earnings for the three month period ended December 31, 2007 decreased 62% to \$682,000 or \$.11 per unit compared with \$1.8 million or \$.30 per unit for the three month period ended December 31, 2006.

SUMMARY OF QUARTERLY RESULTS	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>(\$000s except for units and per unit amounts)</i>								
Revenue	6,480	8,419	1,195	12,368	8,486	8,088	4,870	9,467
Gross margin ⁽¹⁾	2,535	2,585	(170)	5,105	3,187	3,101	1,366	4,007
Net earnings (loss)	682	733	(1,086)	3,067	1,799	1,587	147	2,430
Per unit (basic and diluted) ⁽²⁾	.11	.12	(.17)	.50	.30	.26	.02	.53
Funds from operations ⁽¹⁾	1,347	1,575	(1,027)	3,887	2,220	2,142	479	3,043
Per unit (basic and diluted) ⁽²⁾	.21	.25	(.17)	.64	.37	.36	.08	.67
EBITDA ⁽³⁾	1,779	1,984	(632)	4,246	2,495	2,251	598	3,396
Per unit (basic and diluted) ⁽²⁾	.28	.31	(.10)	.69	.43	.38	.10	.75
Capital expenditures	-	900	868	3,061	12,421	6,523	3,126	2,206
OPERATING HIGHLIGHTS								
Number of rigs (weighted average) ⁽⁴⁾	7.0	7.6	8.0	7.0	5.1	6	6	5.1
Operating days	260	334	16	393	267	313	170	349
Utilization rate	40%	48%	2%	62%	58%	57%	31%	75%
Industry average ⁽⁵⁾	37%	38%	16%	58%	47%	63%	36%	81%

- (1) Funds from operations as used in this report represents cash flow from operating activities before changes in non-cash operating working capital. Gross margin represents revenue less operating expenses. Readers are cautioned that funds from operations and gross margin do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute funds from operations and gross margin on a consistent basis for each reporting period. Management believes that in addition to net earnings, funds from operations is a useful supplemental measure as it provides an indication of the funds that are available for investing and financing activities, including distributions to unitholders. Management believes gross margin is a useful supplemental measure of operating performance and is particularly relevant to readers within the investment community. Refer to "Non-GAAP Measures" later in this discussion for a quantitative reconciliation of these numbers.
- (2) The units outstanding give effect to the restructuring of Pantera in 2005 and the February 8, 2006 split of units of the Trust on the basis of 10.739754 units for each trust unit of the Trust held immediately prior to the effective time of the split.
- (3) EBITDA means net earnings before interest, taxes, depreciation, amortization and losses or gains on disposal of equipment. Readers are cautioned that EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute EBITDA on a consistent basis for each reporting period. Management believes that, in addition to net earnings, EBITDA is a significant indication of success for Pantera and is particularly relevant to readers within the investment community. Refer to "Non-GAAP Measures" later in this discussion for a quantitative reconciliation of these numbers.
- (4) For purposes of calculating utilization rates, the number of rigs (weighted average) for Q4, 2006 has been adjusted to reflect the temporary removal of Rigs No. 3 and 4 on October 1, 2006 as they were unavailable for use by Pantera and during Q3, 2007 the utilization rates were adjusted to reflect the de-listing of Rig No. 2.
- (5) Source: Canadian Association of Oilwell Drilling Contractors (CAODC).

Seasonality of Operations

All operations of the Trust are performed in Canada and are dependent on weather conditions. The first quarter is typically the busiest due to the frozen ground conditions that allow easier rig movement and access to drilling locations. The second quarter is the slowest with the arrival of spring break-up; frost comes out of the ground and roads are unable to support the weight of heavy equipment. This period of road bans reduces permitted load weights and restricts access to drilling locations. The third and fourth quarters generally represent more normalized drilling activity levels.

Fourth Quarter Analysis

Drilling activity continued to decline throughout the fourth quarter of 2007. Industry utilization rates declined 21% from 47% in the fourth quarter 2006 to 37% in the fourth quarter 2007. This is a direct result of the average of 65 more rigs competing in a quarter that drilled 5,212 wells in the fourth quarter 2007 as compared to 6,758 wells in the fourth quarter 2006. On an operating day basis, Pantera experienced only a slight decrease of 7 days (3%) from 267 days in the fourth quarter 2006 to 260 days in the fourth quarter 2007. However the growth in Pantera's number of rigs on a weighted average from 5.1 rigs in the fourth quarter 2006 to 7 rigs in the fourth quarter 2007 resulted in a decline in Pantera's utilization rate from 58% in the fourth quarter 2006 to 40% in the fourth quarter 2007.

The downward pressure in day rates combined with the increase in repairs, labour and other operating costs resulted in a decrease in net earnings. Pantera recorded net earnings for the three months ended December 31, 2007 of \$682,000 as compared with \$1.8 million in 2006.

LIQUIDITY AND CAPITAL RESOURCES

<i>As at December 31</i> <i>(\$000s)</i>	2007	2006
Working capital (deficiency)	278	(1,331)
Long term debt	22,609	19,460

At December 31, 2007, Pantera's working capital was \$277,700 compared to a deficiency of \$1.3 million at the end of 2006, a change of \$1.6 million. The deficiency at December 31, 2006 was largely due to the inclusion of rig construction accounts payable in the amount of \$4.9 million, whereas at December 31, 2007 the rig construction payable amount had been reduced to \$1.6 million. In February 2007, the extendible loan facility was drawn on in the amount of \$4.0 million to partially finance these capital expenditures and will be drawn on again when the final payment of \$1.6 million is made for the capital improvements. The current portion of debt at December 31, 2007 primarily relates to equipment finance loans. On November 6, 2007 Pantera extended its credit facility with its existing lender to a term-out date of December 27, 2008. The credit facility consists of a \$5 million revolving operating demand loan, a \$35 million committed 364 day extendible revolving loan facility, and a \$500,000 demand standby letter of credit. The facility requires interest to be paid monthly with no scheduled principal repayment unless the 364 day extendable facility is not extended. It is management's intention to repay the credit facility as cash becomes available through the normal course of operations. As at December 31, 2007 the Trust was in compliance with all financial covenants under its credit facility.

The Trust's capital requirements consist of providing funds for the monthly trust distributions and capital expenditures. Sources of funds to meet requirements include cash flow from operating activities, the bank credit facility, equipment financing, term loans and equity markets.

Management believes it has adequate cash generating capability, capital resources and access to capital and debt markets to meet its working capital, trust distribution and capital expenditure requirements for the foreseeable future.

Cash Provided by Operating Activities

Cash provided by operating activities was \$6.5 million for the year ended December 31, 2007 compared with \$7.6 million for the same period in 2006, a decrease of \$1.1 million. The decrease in cash provided by operating activities was primarily due to the decrease in net earnings (after adjustments for depreciation and gain on disposal of equipment) of \$2.1 million and the \$1.6 million reduction in accounts payable and accrued liabilities partially offset by the payment of accounts receivable in an amount of \$2.6 million.

Cash Provided by Financing Activities

Cash provided by financing activities decreased by \$12.3 million in 2007 to \$1.2 million from \$13.5 million in 2006. Financing activities included:

- Advances on the credit facility to finance capital expenditures of \$4.2 million in the year ended December 31, 2007 compared with \$18.6 million in 2006; and
- Cash distributions paid to unitholders in the amounts of \$2.5 million. Distributions of \$4.6 million were declared during the year, and of that amount, \$2.1 million was reinvested in trust units by unitholders under the distribution reinvestment plan.

Cash Used in Investing Activities

Cash used in investing activities was \$8.2 million and \$19.8 million, respectively, in the years ended December 31, 2007 and 2006, a decrease of \$11.6 million. Cash was used for partial payment of the conversion costs for Rig No's 3 and 4 completed in Q1 2007 as well as drill pipe and top drive enhancements in Q3 2007.

Distributions

DISTRIBUTIONS	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
<i>(\$000s)</i>			
Cash flow from operating activities ⁽¹⁾	6,461	7,566	4,299
Net earnings	3,395	5,963	3,891
Distributions declared ⁽²⁾	4,572	4,429	-
Excess of cash flow from operating activities over distributions declared	1,889	3,137	4,299
Excess (shortfall) of net earnings over distributions declared	(1,177)	1,534	3,891

(1) Takes into account changes in non-cash working capital balances.

(2) Cash distributions paid were lower due to distributions reinvestment plan. Please refer to statements of cash flow for paid amounts.

For the year ended December 31, 2007 the Trust declared for distribution \$4.6 million, and of that amount, \$2.1 million was reinvested in additional trust units by unitholders participating in the distribution reinvestment plan. This resulted in a net cash outflow to unitholders of \$2.5 million. The Trust declared for distributions 79% of the funds from operations. After taking into consideration the amount of distributions reinvested under the Plan, the cash paid to unitholders on a year-to-date

basis equated to 43% of funds from operations. In determining the amount to distribute consideration is given, but not limited to, Pantera's interest and debt principal repayment obligations, capital requirements to maintain its defined assets, capital investment opportunities, external growth opportunities, the seasonality of Pantera's business, and legislative change in tax laws by governments in Canada.

DISTRIBUTIONS	Year ended December 31,	
	2007	2006
<i>(\$000s except for per unit amounts)</i>		
Cash flow from operating activities	6,461	7,566
Add: Changes in non-cash working capital	(679)	318
Funds from operations ⁽¹⁾	5,782	7,884
Distributions declared	4,573	4,429
Cash distributions paid ⁽²⁾	2,494	4,091
Funds retained for future distributions, capital expenditures, and debt reduction	1,209	3,455
Funds from operations per unit ⁽¹⁾	.92	1.40
Distributions declared per unit ⁽¹⁾	.73	.78
Funds retained per unit ⁽¹⁾	.19	.62

- (1) Readers are cautioned that funds from operations does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. However, Pantera does compute funds from operations and the per unit information on a consistent basis for each reporting period.
- (2) Represents the distributions declared less the proceeds from the distribution reinvestment plan.

Commitments and Contractual Obligations

	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
<i>(\$000s)</i>					
Debenture ⁽¹⁾	675	675			
Capital Lease Obligations	606	297	309		
Operating Leases ⁽²⁾	658	333	325		
Total Contractual Obligations	1,939	1,305	634		

- (1) The Trust's debenture of \$675,000 was repaid in full subsequent to year end.
- (2) The Trust leases office space from a related party under an operating lease agreement. Under the terms of the lease, net annual payments of \$90,000 are required until expiry on October 31, 2010.

The Trust has an extendible revolving loan facility with an amount outstanding at December 31, 2007 of \$22.3 million. This loan requires interest to be paid monthly with no scheduled principal repayment unless the 364 day extendible revolving credit facility is not extended. The extension date is December 27, 2008. It is management's current intention to extend the credit facility. If not extended, the loan is capped and repayable over the ensuing four year period by quarterly payments of 1/20th of the amount outstanding at the maturity date. These payments would commence three months after the maturity date with the final payment covering the remaining balance due four years from maturity date.

Off Balance Sheet Arrangements

The Trust has lease commitments for its premises and equipment which total \$658,000 over the course of the next three fiscal years. These commitments are outlined in note 12 of the audited December 31, 2007 consolidated financial statements. Other than operating lease commitments relating to its premises and equipment, the Trust has no other off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Pantera transacted with related parties as follows:

<i>Years ended December 31</i> <i>(\$000s)</i>	2007	2006
Accounting related consulting		
fees paid to a company controlled by an officer	-	52
Training and safety related fees		
paid to a company of which a trustee is a director	-	12
Rent paid to a company		
controlled by a trustee	196	157
Reimbursement of expenses by a company		
controlled by a trustee	11	-

These transactions are in the normal course of operations and are measured at the exchange amount, which approximate fair value and is the amount of consideration established and agreed to by the parties. Outstanding balances with respect to the transactions set forth above are:

<i>As at December 31</i> <i>(\$000s)</i>	2007	2006
Accounts payable and accrued liabilities	12	3
Prepaid expenses and deposits	13	13

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Trust is accumulated and communicated to the Trust's Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

The Trust's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of the Trust's disclosure controls and procedures as of the date of this Management's Discussion and Analysis, that disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Trust. Certain weaknesses, however, have been identified and the Trust's Chief Executive Officer and Chief Financial Officer do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Chief Executive Officer and Chief Financial Officer of the Trust are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in

order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The design of the Trust's internal control over financial reporting was assessed as of the date of this Management's Discussion and Analysis.

The weaknesses in the Trust's internal controls over financial reporting, discussed below, result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of trustees work to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. These weaknesses and their related risks are not uncommon in a company of the size of the Trust, because of the limitations of size and number of staff.

Control deficiencies have been identified within the Trust's accounting department and its financial information systems over segregation of duties and user access. Specifically, certain duties within the accounting department were not properly segregated due to the small number of individuals employed in this area. In addition, the Trust identified instances whereby personnel had the ability to initiate transactions or accounting entries within certain financial reporting applications that were not compatible with their other roles and responsibilities. None of the segregation of duty or access control deficiencies has resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more-than remote likelihood that a material misstatement of the Trust's annual or interim financial statements would not be prevented or detected. As the Trust grows, it plans to expand the number of individuals involved in the accounting function. At the present time, the Chief Executive Officer and Chief Financial Officer oversee all material transactions and related accounting records. In addition, the Audit Committee reviews on a quarterly basis the financial statements and key risks of the Trust and queries management about significant transactions, and there is daily oversight by the senior management of the Trust.

The Trust has determined that many of its information systems are subject to general control deficiencies. Although these have not resulted in a misstatement of the financial statements, when aggregated, these deficiencies may be considered a material weakness in the Trust's control procedures resulting in a more-than remote likelihood that a material misstatement of the Trust's annual or interim financial statements would not be prevented or detected. Specifically, these deficiencies included: reliance on spreadsheets; not well defined and implemented change control procedures; and, not well maintained access controls. The Trust intends to document change management procedures and implement new access control procedures including regular password changes and review of existing access authority levels and personnel to mitigate these risks. In addition, where cost effective, the Trust intends to upgrade its financial applications software.

As required, the Trust records complex and non-routine transactions. These sometimes are extremely technical in nature and require an in-depth understanding of GAAP and income tax legislation. The Trust's accounting staff has only a fair and reasonable knowledge of the rules related to GAAP and income tax and there is a risk that the reporting and the transactions may not be recorded correctly, potentially resulting in material misstatement of the financial statements of the Trust. To address this risk, the Trust consults with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. As the Trust grows, it plans to expand the technical competence of the individuals involved in the accounting function.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires that certain estimates and judgments be made that affect the reported assets, liabilities, revenue and expenses. These estimates are based on historical experience and management judgment. Anticipating future events cannot be done with certainty and therefore these estimates may change as future events unfold, additional experience is acquired or the Trust's operating environment changes.

Depreciation

The Trust's capital assets are depreciated based upon estimates of their useful lives and salvage values. These estimates may change as more experience is gained or as general market conditions change impacting the value of the capital assets.

Allowance for Doubtful Accounts Receivable

The Trust performs credit evaluations on its customers and grants credit based upon historical, financial and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts, if necessary, is established based upon specific situations and overall industry conditions. Bad debts have been minimal and limited to specific customer circumstances; however, due to the cyclical nature of the oil and gas industry, this credit risk can change suddenly and without notice.

Impairment of Long-Lived Assets

Long-lived assets, which include drilling rigs and associated equipment, comprise the majority of the Trust's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Significant, unanticipated changes to these values could require a provision for impairment in the future.

Revenue Recognition

Revenue from the provision of drilling activities and supplies is recognized when services are delivered and collection is reasonably assured.

FINANCIAL INSTRUMENTS

Fair Values

The fair values of the accounts receivable, accounts payable and accrued liabilities, rig construction payables, and distributions payable approximate their carrying values as at December 31, 2007 due to the short-term or otherwise liquid nature of these items. The fair value of the bank loans, excluding the finance loans, approximate their carrying values as they bear interest at floating rates. The fair value of the finance loans approximates carrying value as the rate on the finance contracts is not significantly different from current rates. The fair value of the debenture approximates its carrying value as the terms and conditions of the borrowing arrangement are comparable to market terms and conditions for similar items.

Credit Risk

The Trust's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Interest Rate Risk

The Trust is exposed to interest rate risk on debt subject to floating interest rates.

NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments

On January 1, 2007, the Trust adopted the recommendations of the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section 3855 (Financial Instruments – Recognition and Measurement) setting out comprehensive requirements for the recognition and measurement of financial instruments. Under this standard, the Trust recognizes a financial asset or liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are, with certain exceptions, initially measured at fair value. After initial recognition, the measurement of financial assets vary depending on the category of the asset: financial assets held for trading (at fair value with the unrealized gains and losses on assets recorded in income), held-to-maturity investments (at amortized cost), loans and receivables (at amortized cost), and available-for-sale financial assets (at fair value with the unrealized gains or losses on assets recorded in other comprehensive income). Financial liabilities held for trading are subsequently measured at fair value while all other financial liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs on financial instruments are included in the fair value assessment of each financial asset and financial liability. The Trust may choose to designate derivative instruments as hedges. To date, the Trust has not elected to apply hedge accounting. The Trust also adopted CICA Handbook Section 3861 (Financial Instruments – Disclosure and Presentation) governing the presentation and disclosure of financial instruments to complement Section 3855.

Comprehensive Income

On January 1, 2007, the Trust adopted the recommendations of the CICA Handbook Section 1530 (Comprehensive Income) in respect of the reporting and display of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "other comprehensive income or loss" until it is considered appropriate to recognize into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

Pantera had no "other comprehensive income or loss" transactions during the year ended December 31, 2007 and no opening or closing balances for accumulated or other comprehensive income or loss.

Accounting Changes

The Trust adopted the CICA's revised Handbook Section 1506 (Accounting Changes), which establishes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Effective January

1, 2007, Pantera is now subject to the following recommendations for changes in accounting policies, changes in accounting estimates and correction of errors:

- Changes in accounting policy are applied retroactively unless doing so is impracticable, or the change in accounting policy is made on initial application of a primary source of GAAP in accordance with specific transitional provisions in that primary source of GAAP. A change in accounting estimate is generally recognized prospectively.
- Voluntary changes in accounting policy are only made if they result in the financial statements providing reliable and more relevant information. Material prior period errors are corrected retrospectively.
- New disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The adoption of the new accounting standards described above did not affect Pantera's consolidated financial statements for the year ended December 31, 2007 and the related comparative financial statements.

Future Accounting Changes

The CICA issued Handbook Section 3862 (Financial Instruments – Disclosures), 3863 (Financial Instruments – Presentation) and 1535 (Capital Disclosures), which will be effective January 1, 2008. These new accounting standards will require the Trust to provide additional disclosures relating to financial instruments, including hedging instruments, and the Trust's capital. Handbook Section 3863 does not change the presentation provided in Section 3861 (Financial Instruments – Disclosure and Presentation) which it replaces. It is anticipated that the adoption of these new accounting standards will not impact the amounts reported in the Trust's financial statements as these standards primarily relate to disclosures.

In conjunction with a decision to converge financial reporting for Canadian publicly accountable enterprises to international Financial Reporting Standards (IFRS), the Accounting Standards Board (Canada) issued in 2007 an implementation plan to incorporate IFRS into Canadian GAAP. The implementation plan sets a changeover date of January 1, 2011. Pantera is monitoring and assessing the impact of the Canadian GAAP and IFRS convergence.

OUTLOOK

Pantera experienced a year of moderate growth in 2007, completing the conversions of Rig No. 4 to a 3,400 metre double and Rig No. 3 to a 1,600 metre single. In 2007 drilling activity in western Canada declined by 10% to 19,167 wells, and the average rig count increased 10% to 881 rigs. These two significant factors have reduced the Canadian rig fleet utilization levels by approximately 33% over the past year. The 38% utilization rate recorded in 2007 is the first year under 50% since 2002.

The CAODC 2008 Forecast (issued October 29, 2007) for wells to be drilled is 13,735 wells, representing a 28% decrease from the 2007 total. The available rig fleet is expected to drop by 40 rigs in 2008, which would be the first year of decline since 1993. Equipment is being de-listed, and re-located to stronger markets within North America and other countries in the world. Canadian oilfield technology is sought after by many countries, and it is anticipated that international contracts on exportation of new and existing equipment will continue in 2008.

With record oil prices and seemingly stable natural gas prices, it appears that the economic conditions needed for a renewed interest in drilling in western Canada may be on the horizon. Pantera will endeavor to maintain its equipment in top notch condition and poised for growth when higher activity returns. Future growth of the Trust will consist of new rig construction and the possible acquisition of other businesses complimentary to the Trust's.

FORWARD-LOOKING STATEMENTS

Certain statements included in this discussion constitute forward-looking statements including, without limitation, such things as revenue expectations, capital expenditures, legislative changes, changes in industry conditions, the impact of weather and other seasonal factors that affect business operations, fluctuations in prevailing commodity prices, the competitive environment to which Pantera is, or may be, exposed in all aspects of its business and expected future availability and utilization of Pantera's rigs. Such forward-looking statements that involve unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Pantera, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, general economic and business conditions, the ability of Pantera to implement its business strategy, and changes in, or failure to comply with government regulations, especially health, safety and environment laws, regulations and guidelines. Additional information on these and other factors that could affect Pantera's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) under Pantera's profile. Forward-looking statements in this discussion may include, but are not limited to, revenue, commodity prices, rig utilization and availability, capital expenditures and legislative changes. For this purpose, any statements that are contained in this discussion that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expects", "intends" and similar expressions. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Furthermore, the forward-looking statements contained herein are made as at the date hereof and Pantera does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

NON-GAAP MEASURES

Included in the discussion and analysis are references to terms commonly used in the oil and gas drilling industry such as funds from operations, EBITDA, and gross margin. Funds from operations as used in this report represents cash flow from operating activities before changes in non-cash operating working capital and has replaced the term cash flow from operations as shown in Pantera's previous filings. EBITDA represents earnings before interest, income taxes, depreciation, amortization and losses or gains on disposal of equipment. Gross margin represents revenue less operating expenses. The Trust's method of calculating funds from operations, EBITDA, and gross margin may differ from others in the industry.

Management believes that in addition to net income, these supplemental measures are an indicator of the Trust's performance for on-going operations. These terms are not defined by Canadian GAAP and therefore are referred to as non-GAAP measures.

FUNDS FROM OPERATIONS		
<i>Funds from operations is calculated as follows:</i>	2007	2006
<i>(\$000s)</i>		
Cash flow from operating activities	6,461	7,566
Add: change in non-cash working capital	(679)	318
Funds from operations	5,782	7,884

EBITDA		
<i>EBITDA is calculated as follows:</i>	2007	2006
<i>(\$000s)</i>		
Net earnings for the period	3,395	5,963
Add: depreciation and amortization	2,387	1,994
interest	1,594	893
income tax benefit	-	(36)
EBITDA	7,376	8,814

GROSS MARGIN		
<i>Gross margin is calculated as follows:</i>	2007	2006
<i>(\$000s)</i>		
Revenue	28,461	30,911
Less: Operating expenses	18,406	19,250
Gross margin	10,055	11,661

The Trust is an open-ended, investment trust governed by the laws of the Province of Alberta pursuant to the Deed of Trust. The Trust was established for the purpose of investing in property including the securities of Pantera Drilling Limited Partnership and Pantera Drilling Inc. The beneficiaries of the Trust are the holders of the trust units. The business of Pantera involves the provision of contract drilling services to oil and natural gas exploration and production companies operating in Canada.

For further information please contact:

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President and Chief Executive Officer
or
Lorna Pollock
Chief Financial Officer at:

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lpollock@panteradrilling.com

Consolidated Financial Statements of

PANTERA DRILLING INCOME TRUST

Years Ended December 31, 2007 and 2006



PANTERA DRILLING INCOME TRUST

Management's Report to the Unitholders

The consolidated financial statements of Pantera Drilling Income Trust (the "Trust") form the basis for all financial information that appears in this report. The consolidated financial statements of the Trust and all the information in this report are the responsibility of the management of the Trust. The Board of Trustees is responsible for ensuring that management fulfills its financial reporting responsibilities. KPMG LLP, the Trust's auditors, have audited the consolidated financial statements.

Management has prepared the consolidated financial statements according to Canadian generally accepted accounting principles. Under these principles, management has made certain estimates and assumptions that are reflected in the consolidated financial statements and notes. Management believes that these consolidated financial statements fairly present the Trust's financial position, results of operations and cash flows.

Management maintains a system of internal controls designed to provide reasonable assurance that the consolidated financial statements are accurate and complete in all material respects. Management is of the opinion that these internal controls provide reasonable assurance regarding complete and accurate maintenance of accounting records necessary for the preparation of the consolidated financial statements.

The Audit Committee of the Board of Trustees has reviewed the consolidated financial statements and MD&A with management and KPMG, the Trust's auditors. The consolidated financial statements have been approved by the Board of Trustees on the recommendation of the Audit Committee.

Terry Rosentreter
President & Chief Executive Officer

March 20, 2008

Lorna Pollock
Chief Financial Officer

March 20, 2008



KPMG LLP
Chartered Accountants
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Calgary AB T2P 4B9

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Internet www.kpmg.ca

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Pantera Drilling Income Trust as at December 31, 2007 and 2006 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 20, 2008

PANTERA DRILLING INCOME TRUST

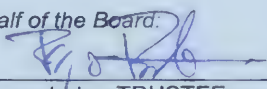
Consolidated Balance Sheets

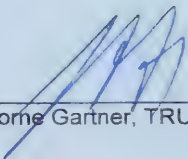
As at December 31

	2007	2006
Assets		
Current assets		
Cash	\$ 727,585	\$ 1,216,861
Accounts receivable	4,794,395	7,400,550
Prepaid expenses and deposits	359,183	125,350
	<u>5,881,163</u>	<u>8,742,761</u>
Property and equipment (note 4)	48,756,315	46,314,259
	<u>\$ 54,637,478</u>	<u>\$ 55,057,020</u>
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,874,967	\$ 4,568,807
Distributions payable	194,627	406,447
Rig construction accounts payable	1,562,070	4,906,890
Current portion of debt (note 5)	296,825	191,764
Debenture (note 6)	675,000	-
	<u>5,603,489</u>	<u>10,073,908</u>
Debenture (note 6)	-	675,000
Debt (note 5)	22,609,329	18,784,554
	<u>28,212,818</u>	<u>29,533,462</u>
Unitholders' equity		
Unitholders' capital (note 7)	25,476,112	23,398,104
Retained earnings	948,548	2,125,454
	<u>26,424,660</u>	<u>25,523,558</u>
Subsequent event (note 6)		
Contingency (note 12)		
Commitment (note 13)		
	<u>\$ 54,637,478</u>	<u>\$ 55,057,020</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:


Terry Rosentreter, TRUSTEE


Lorne Gartner, TRUSTEE

PANTERA DRILLING INCOME TRUST

Consolidated Statements of Operations and Retained Earnings

<i>Years ended December 31</i>	<u>2007</u>	<u>2006</u>
Revenue	\$ 28,461,284	\$ 30,911,057
Expenses		
Operating	18,406,243	19,250,147
Depreciation	2,386,895	1,994,134
General and administrative (note 8)	2,678,289	2,920,568
Interest - short-term	138,457	324,820
- long-term	1,456,012	568,360
Gain on disposal of property and equipment	-	(73,200)
	<u>25,065,896</u>	<u>24,984,829</u>
Earnings before taxes	<u>3,395,388</u>	<u>5,926,228</u>
Current income taxes (note 10)	<u>-</u>	<u>(36,714)</u>
Net earnings for the year	3,395,388	5,962,942
Retained earnings, beginning of year	2,125,454	591,121
Distributions declared	(4,572,294)	(4,428,609)
Retained earnings, end of year	<u>\$ 948,548</u>	<u>\$ 2,125,454</u>
Net earnings per unit-basic and diluted (note 7)	<u>\$.54</u>	<u>\$ 1.06</u>

See accompanying notes to consolidated financial statements.

PANTERA DRILLING INCOME TRUST

Consolidated Statements of Cash Flows

<i>Years ended December 31</i>	<u>2007</u>	<u>2006</u>
Cash provided by (used in):		
Operating		
Net earnings for the year	\$ 3,395,388	\$ 5,962,942
Items not involving cash:		
Depreciation	2,386,895	1,994,134
Gain on disposal of property and equipment	-	(73,200)
	<u>5,782,283</u>	<u>7,883,876</u>
Changes in non-cash operating working capital (note 9)	678,482	(317,537)
	<u>\$ 6,460,765</u>	<u>\$ 7,566,339</u>
Financing		
Repayment of operating demand loan	-	(387,012)
Advances on debt	4,164,850	18,575,916
Principal payments on debt	(235,014)	(23,646,804)
Repayment of debenture	-	(225,000)
Issue of units	-	25,000,000
Unit issue costs	-	(2,137,569)
Distributions paid to unitholders	(2,494,286)	(4,091,336)
Change in non-cash financing working capital (note 9)	(211,820)	406,447
	<u>\$ 1,223,730</u>	<u>\$ 13,494,642</u>
Investing		
Property and equipment additions	(4,828,951)	(24,276,268)
Proceeds on disposal of equipment	-	1,446,800
Change in non-cash investing working capital (note 9)	(3,344,820)	2,985,348
	<u>\$ (8,173,771)</u>	<u>\$ (19,844,120)</u>
Increase (decrease) in cash	(489,276)	1,216,861
Cash, beginning of year	<u>1,216,861</u>	<u>-</u>
Cash, end of year	<u>\$ 727,585</u>	<u>\$ 1,216,861</u>
Interest paid	<u>\$ 1,491,570</u>	<u>\$ 918,181</u>
Taxes paid	<u>\$ -</u>	<u>\$ 1,095,086</u>

See accompanying notes to consolidated financial statements.

PANTERA DRILLING INCOME TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2007 and 2006

1. Structure of the Trust

Pantera Drilling Income Trust ("Pantera" or the "Trust") is an unincorporated open-ended limited purpose mutual fund trust established under and governed by the laws of the Province of Alberta pursuant to the Declaration of Trust dated June 9, 2005. The Trust was established for the purpose of investing in property including the securities of Pantera Drilling Limited Partnership and Pantera Drilling Inc. The beneficiaries of the Trust are the holders of the trust units.

The Trust pays monthly cash distributions to its unitholders. These distributions represent all cash received from the Trust's subsidiaries, less cash amounts required for expenses and other obligations of the Trust, cash redemptions of units, any tax liability and certain other amounts. The Board of Trustees has the discretion to determine the extent of the distributions.

2. Significant Accounting Policies

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(a) Principles of consolidation:

As at December 31, 2007 and 2006 the consolidated financial statements include the accounts of the Trust and its subsidiaries, all of which are wholly-owned.

(b) Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Coil tubing rigs and top drives are depreciated using the unit-of-production method based on 2,000 drilling days with no salvage value, conventional drilling rigs are depreciated over 3,650 drilling days with a 20% salvage value, and drill pipe is depreciated over 1100 drilling days with no salvage value. Office furniture is depreciated on the straight-line basis over 4 years and computer equipment is depreciated on the straight-line basis over 3 years. Loaders are depreciated on a straight-line basis at 30% per year.

(c) Long-lived assets:

Long-lived assets, which include drilling rigs and associated equipment, comprise the majority of the Trust's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Significant, unanticipated changes to these values could require a provision for impairment in the future.

(d) Income taxes:

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on the income that is not distributed or distributable to the unitholders. As both the Trust and its Trust subsidiaries

PANTERA DRILLING INCOME TRUST

Notes to Consolidated Financial Statements

distribute all of their taxable income to their respective Unitholders pursuant to the requirements of their trust indentures, neither the Trust nor its trust subsidiaries make provisions for future income taxes.

The Trust and its corporate subsidiaries follow the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined on differences between financial reporting and income tax basis of assets and liabilities, using income tax rates in effect on the balance sheet date. The effect of a change in rates on future income tax liabilities and assets is recognized in the period that the change occurs.

(e) Revenue recognition:

Revenue from the provision of drilling activities and supplies is recognized when services are delivered and collection is reasonably assured.

(f) Per unit data:

The Trust uses the treasury stock method in the determination of diluted earnings per unit amounts. Under this method, the diluted weighted average number of units is calculated on the basis that the proceeds from the exercise of outstanding in the money options are used to purchase trust units at their average market price for the period. Earnings per unit are calculated on the weighted average number of units outstanding during the year.

3. Changes in Accounting Policies

(a) Financial instruments

On January 1, 2007, the Trust adopted the recommendations of the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section 3855 (Financial Instruments – Recognition and Measurement) setting out comprehensive requirements for the recognition and measurement of financial instruments. Under this standard, the Trust recognizes a financial asset or liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are, with certain exceptions, initially measured at fair value. After initial recognition, the measurement of financial assets vary depending on the category of the asset: financial assets held for trading (at fair value with the unrealized gains and losses on assets recorded in income), held-to-maturity investments (at amortized cost), loans and receivables (at amortized cost), and available-for-sale financial assets (at fair value with the unrealized gains or losses on assets recorded in other comprehensive income). Financial liabilities held for trading are subsequently measured at fair value while all other financial liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs on financial instruments are included in the fair value assessment of each financial asset and financial liability. The Trust may choose to designate derivative instruments as hedges. To date, the Trust has not elected to apply hedge accounting. The Trust also adopted CICA Handbook Section 3861 (Financial Instruments – Disclosure and Presentation) governing the presentation and disclosure of financial instruments to complement Section 3855.

(b) Comprehensive income

On January 1, 2007, the Trust adopted the recommendations of the CICA Handbook Section 1530 (Comprehensive Income) in respect of the reporting and display of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and

PANTERA DRILLING INCOME TRUST

Notes to Consolidated Financial Statements

other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "other comprehensive income or loss" until it is considered appropriate to recognize into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

Pantera had no "other comprehensive income or loss" transactions during the year ended December 31, 2007 and no opening or closing balances for accumulated or other comprehensive income or loss.

(c) Accounting changes

The Trust adopted the CICA's revised Handbook Section 1506 (Accounting Changes), which establishes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Effective January 1, 2007, Pantera is now subject to the following recommendations for changes in accounting policies, changes in accounting estimates and correction of errors:

- Changes in accounting policy are applied retroactively unless doing so is impracticable, or the change in accounting policy is made on initial application of a primary source of GAAP in accordance with specific transitional provisions in that primary source of GAAP. A change in accounting estimate is generally recognized prospectively.
- Voluntary changes in accounting policy are only made if they result in the financial statements providing reliable and more relevant information. Material prior period errors are corrected retrospectively.
- New disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The adoption of the new accounting standards described above did not affect Pantera's consolidated financial statements for the year ended December 31, 2007 and the related comparative financial statements.

(d) Future accounting changes

The CICA issued Handbook Section 3862 (Financial Instruments – Disclosures), 3863 (Financial Instruments – Presentation) and 1535 (Capital Disclosures), which will be effective January 1, 2008. These new accounting standards will require the Trust to provide additional disclosures relating to financial instruments, including hedging instruments, and the Trust's capital. Handbook Section 3863 does not change the presentation provided in Section 3861 (Financial Instruments – Disclosure and Presentation) which it replaces. It is anticipated that the adoption of these new accounting standards will not impact the amounts reported in the Trust's financial statements as these standards primarily relate to disclosures.

4. Property and Equipment

	December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Drilling equipment and loaders	\$ 57,658,921	\$ 8,947,615	\$ 48,711,306

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Office and computer equipment	141,890	96,881	45,009
	<u>\$ 57,800,811</u>	<u>\$ 9,044,496</u>	<u>\$ 48,756,315</u>
December 31, 2006			
	Cost	Accumulated Depreciation	Net Book Value
Drilling equipment and loaders	\$ 47,192,643	\$ 6,580,310	\$ 40,612,333
Rigs under construction	5,654,229	-	5,654,229
Office and computer equipment	124,988	77,291	47,697
	<u>\$ 52,971,860</u>	<u>\$ 6,657,601</u>	<u>\$ 46,314,259</u>

Rigs under construction are not subject to depreciation until construction is complete and they are available for use.

5. Debt

	December 31, 2007	December 31, 2006
Extendible revolving loan facility	\$ 22,300,000	\$ 18,300,000
Other equipment finance loans	606,154	676,318
	<u>\$ 22,906,154</u>	<u>\$ 18,976,318</u>
Less current portion	296,825	191,764
	<u>\$ 22,609,329</u>	<u>\$ 18,784,554</u>

The Trust has available an operating demand revolving loan facility of \$5,000,000 (December 31, 2006 - \$5,000,000), a 364 day extendible revolving loan facility of \$35,000,000, and a letter of credit facility of \$500,000. These loans require interest to be paid monthly with no scheduled principal repayment unless the 364 day extendible revolving credit facility is not extended. The extension date is December 27, 2008 (the "maturity date"). If not extended, the loan is capped and repayable over the ensuing 4 year period by quarterly payments of 1/20th of the amount outstanding at the maturity date with the final payment covering the remaining balance due 4 years from maturity date. These payments would commence 3 months after the maturity date. Interest on both loan facilities is at the Trust's option of the bank's prime rate plus 0.75% per annum or banker's acceptance rate plus 2.0% per annum. The effective rate at December 31, 2007, was 6.9%. The loan facilities are secured by a General Security Agreement over all of the assets of the Trust.

The other equipment finance loans bear interest at rates ranging between 5.85% and 6.19% and are repayable in monthly installments of \$21,174 with a final payment of \$108,000 due in 2008, \$151,024 due in 2009 and \$48,512 due in 2010. The loans are secured by the related leased assets with a net book value of approximately \$615,000 as at December 31, 2007 (December 31, 2006 - \$751,000).

Pantera's estimated scheduled principal repayments for other equipment finance loans are as follows:

2008	\$ 296,825
2009	257,951
2010	<u>51,378</u>
	<u>\$ 606,154</u>

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6. Debenture

The debenture is due on January 2, 2008. Interest is payable monthly at a bank's prime rate. The debenture is secured by a charge over certain drilling rig assets, and was repaid in full subsequent to year end.

7. Unitholders' Capital

(a) The Trust is authorized to issue an unlimited number of trust units. Each trust unit is transferable, and redeemable on demand, at the option of the unitholder, carries the right to one vote, and represents an equal undivided beneficial interest in any distributions from the Trust and in the net assets of the Trust in the event of termination or winding-up of the Trust. Units are redeemable at any time on demand at a price equal to the lesser of 90% of the market price of the Trust units during the 10 day period ending on the date before the redemption date or 100% of the market price of the Trust units on the redemption date. Unless waived by the Trustees, if the total amount payable by the Trust in respect of all Trust units tendered for redemption in a month exceeds \$50,000, the Trustees have the right to issue an unsecured promissory note of the Commercial Trust in an amount that represents the market value of Trust units surrendered.

(b) Issued:

The following gives affect to the restructuring of the Trust in 2005 from a corporation to a trust and the February 8, 2006 split of units of the Trust on the basis of 10.739754 units for each trust unit of the Trust held immediately prior to the effective time of the split. Effective immediately following the split, 3,500,000 units were outstanding.

	Number	Amount
Balance, December 31, 2005	3,500,000	\$ 198,400
Units issued pursuant to initial public offering	2,500,000	25,000,000
Unit issue costs	-	(2,137,569)
Units issued pursuant to distribution reinvestment plan	66,365	337,273
Balance, December 31, 2006	6,066,365	23,398,104
Units issued pursuant to distribution reinvestment plan	421,208	2,078,008
Balance, December 31, 2007	6,487,573	\$ 25,476,112

(c) Per share amounts:

The numerators and denominators used in the calculation of the basic and diluted net earnings per unit are as follows:

	2007	2006
Numerators:		
Net earnings for the year	\$ 3,395,388	\$ 5,962,942
Denominators:		
Weighted average number of units outstanding for the year	6,266,569	5,649,400

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(d) Distribution reinvestment plan:

The Trust implemented a distribution reinvestment plan (the "Plan") on September 30, 2006. The Plan provides eligible unitholders with the opportunity to reinvest their cash distributions payable towards the purchase of additional units from treasury at a price equal to 95 percent of the average market price on the applicable distribution payment date.

8. Related Party Transactions

Included in general and administrative expenses

	2007	2006
Accounting related consulting fees paid to a company controlled by an officer	\$ -	\$ 52,400
Training and safety related fees paid to a company of which a trustee is a director	\$ -	\$ 12,308
Rent paid to a company controlled by a trustee	\$ 195,551	\$ 157,227
Reimbursement of expenses by a company controlled by a trustee	\$ 11,180	\$ -

These transactions are in the normal course of operations and are measured at the exchange amount, which approximate fair value and is the amount of consideration established and agreed to by the parties. Outstanding balances are:

	December 31, 2007	December 31, 2006
Accounts payable and accrued liabilities	\$ 11,850	\$ 3,825
Prepaid expenses and deposits	\$ 12,916	\$ 12,916

9. Changes in Non-Cash Working Capital

	2007	2006
Accounts receivable	\$ 2,606,155	\$ (1,338,206)
Prepaid expenses and deposits	(233,833)	219,837
Accounts payable and accrued liabilities	(1,693,840)	1,932,632
Income taxes payable	-	(1,131,800)
Distributions payable	(211,820)	406,447
Rig construction accounts payable	(3,344,820)	2,985,348
	<u>\$ (2,878,158)</u>	<u>\$ 3,074,258</u>

Change in non-cash working capital are categorized as follows:

	2007	2006
Change in non-cash operating working capital	\$ 678,482	\$ (317,537)
Change in non-cash financing working capital	(211,820)	406,447
Change in non-cash investing working capital	(3,344,820)	2,985,348
	<u>\$ (2,878,158)</u>	<u>\$ 3,074,258</u>

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10. Income Taxes

The provision for income tax differs from the result that would have been obtained by applying the combined federal and provincial income tax rates to earnings before taxes for the following reasons:

	2007	2006
Earnings before taxes	\$ 3,395,388	\$ 5,926,228
Income of the Trust subject to tax in the hands of the unitholders, not the Trust	(4,572,294)	(4,428,609)
Income (loss) before taxes of subsidiaries	\$ (1,176,906)	\$ 1,497,619
Combined federal and provincial income tax rate	39%	39%
Computed income tax (benefit) at statutory rates	\$ (459,000)	\$ 584,000
Adjustments to income for income tax purposes	451,700	(560,700)
Non-deductible expenses	7,300	5,200
Non-taxable gain on disposal of property and equipment	-	(28,500)
Adjustment relating to prior year's taxes	-	(36,714)
	\$ -	\$ (36,714)

At December 31, 2007 the tax basis for property and equipment exceeds the accounting basis by an amount in excess of \$1.4 million. Other tax balances including financing and underwriting costs exceed their respective book values by an amount in excess of \$1.2 million.

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on the income that is not distributed or distributable to the unitholders. The Canadian federal government in 2007 enacted legislation, such that distributions to unitholders will be taxable for publicly traded income trusts and, income retained in these trusts will be taxed similar to corporations. The new tax will not apply to the Trust until January 1, 2011. The Trust has measured future income tax assets and liabilities associated with the change in the legislation. There is no impact, on the future tax recognized in the financial statements, resulting from the implementation of this tax legislation as it is expected that substantially all existing taxable temporary differences will reverse prior to January 1, 2011. Accordingly, all taxable temporary differences have been recognized at a zero taxation rate. The scheduling of the reversal of temporary differences is based on management's best estimates and current assumptions, which may change.

11. Financial Instruments

(a) Fair values

The fair values of the accounts receivable, accounts payable and accrued liabilities, rig construction accounts payables, and distributions payable approximate their carrying values as at December 31, 2007 due to their short-term to maturity or otherwise liquid nature. The fair value of the bank loans, excluding the finance loans, approximate their carrying values as they bear interest at floating rates. The fair value of the finance loans approximate carrying value as the rate on the finance contracts is not significantly different from current rates. The fair value of the debenture approximates its carrying value as the terms and conditions of the borrowing arrangement are comparable to market terms and conditions for similar items.

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(b) Credit risk

The Trust's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The Trust performs credit evaluations on its customers and grants credit based upon historical, financial and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts, if necessary, is established based upon specific situations and overall industry conditions. Bad debts have been minimal and limited to specific customer circumstances; however, due to the cyclical nature of the oil and gas industry, this credit risk can change suddenly and without notice.

(c) Interest rate risk

The Trust is exposed to interest rate risk on debt subject to floating interest rates.

12. Contingency

A third party claim for indemnity has been filed against Pantera in connection with a main action in the approximate amount of \$1.4 million. A statement of defence has been filed effective March 15, 2007. The result of this action is not determinable and consequently, no provision has been recorded in these consolidated financial statements. Provision, if any, will be recorded in the period of determination.

13. Commitment

The Trust has operating lease agreements on office space and several leased vehicles. Payments required in each of the next five years are as follows:

2008	\$	332,694
2009		189,032
2010		135,927
2011		-
2012		-

14. Significant Customers

By the nature of its business, the Trust serves major customers that account for a large portion of revenue by providing exclusive use of one or more of its seven drilling rigs for specified drilling programs. During the year ended December 31, 2007 and 2006 two customers each provided more than 20% of the Trust's revenue; on a combined basis they accounted for 58% (December 31, 2006 – 49%), respectively, of total revenue.

At December 31, 2007 the Trust had contracts in place with one major customer (December 31, 2006 – four) that provide a guaranteed minimum number of revenue generating days at a fixed daily revenue amount (adjusted for industry-wide labour and cost increases) for the duration of the contract with the term being for a period of 30 months. In management's assessment, the future viability of the Trust is not dependent upon any one of these major customers.

15. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation. Such reclassification did not impact previously reported net earnings or retained earnings.

